

# Actively. Sustainable.

Salone SRI 2024, Milano

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# Intro

Take a guess...

# USD 16.3 million

The average cost of extreme weather damages from 2000-2019.

But what is the time basis of this cost?

Cost per hour

~~Cost per day~~

~~Cost per week~~

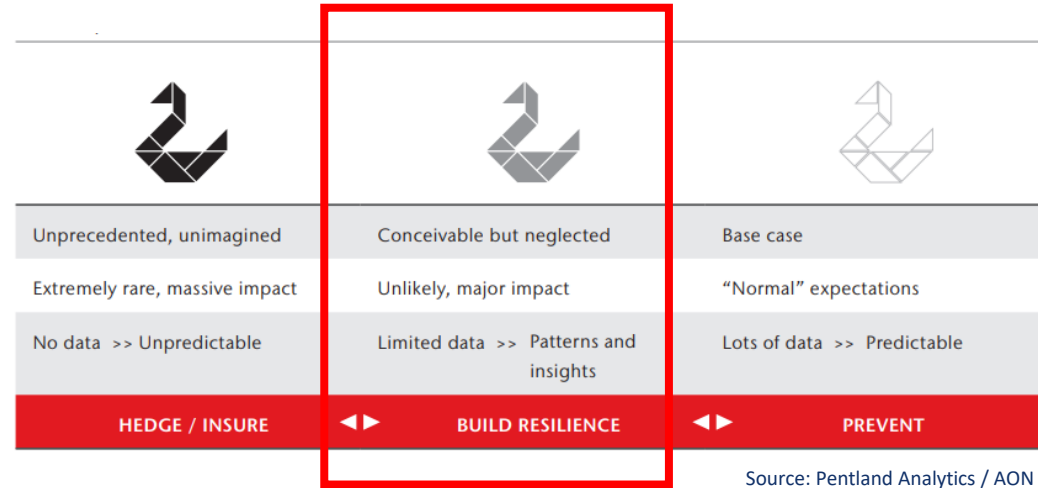
Source: Newman, R., & Noy, I. (2023). *The global costs of extreme weather that are attributable to climate change*. *Nature Communications*, 14 (6013).



# Intro

Take a guess...

How are we looking at climate risks? Black swan, grey swan or white swan?



## And why?

TABLE 2 | OUR HUMAN FRAILTIES

COGNITIVE BIAS	EFFECT
Ambiguity Effect	Prefer options with known probabilities
Normalcy Bias	Underestimate both likelihood and severity of disaster scenarios
Optimism Bias	Underestimate the probability of being affected directly
Ostrich Effect	Ignore negative information to avoid anxiety of decision-making
Herd Instinct	Align with behaviour of larger group to avoid conflict
Status Quo Bias	Prefer to continue as currently rather than risk loss

**Mental Models in Financial Markets: How Do Experts Reason about the Pricing of Climate Risk? (2024)**



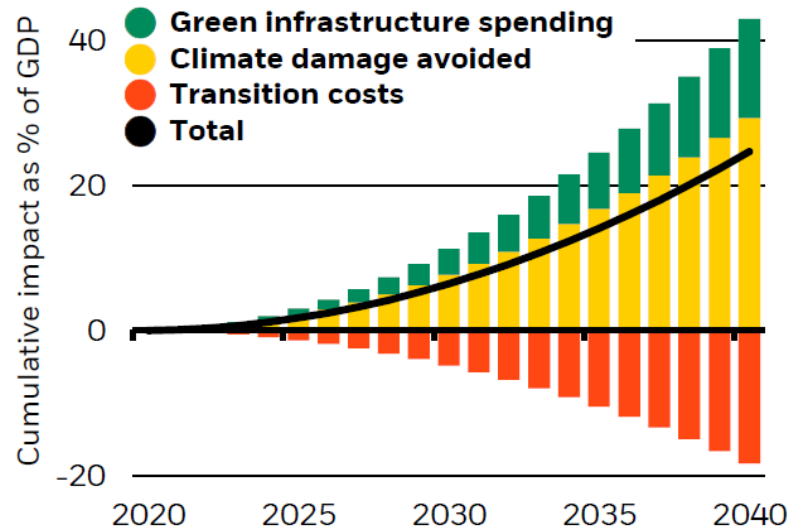
# Intro

Transition comes at a cost, which is competitive compared to inaction or delayed action

*Says who?*

## Transition results in net economic gain

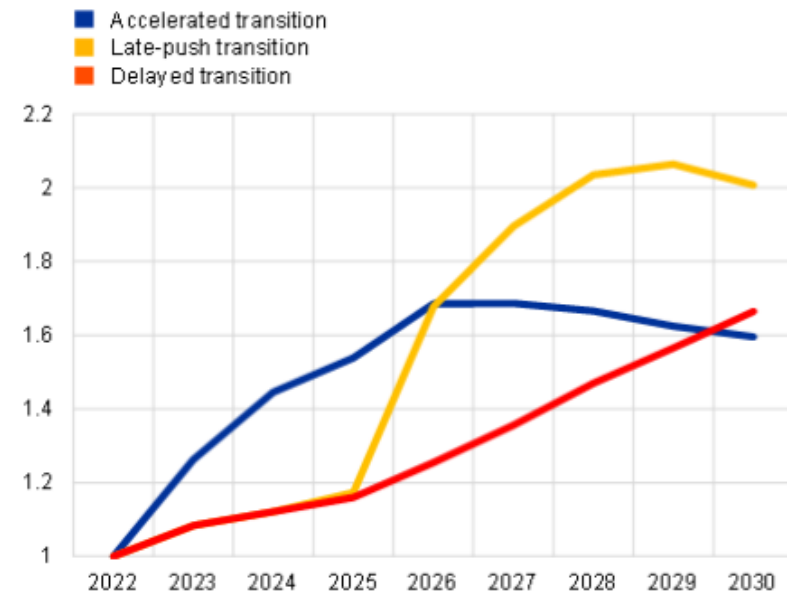
Estimated cumulative GDP impact of transition, 2020-40



Source: Blackrock Investment Institute (2021)

## Panel b) Increase in median credit risk for banks

(index; 2022 = 1)

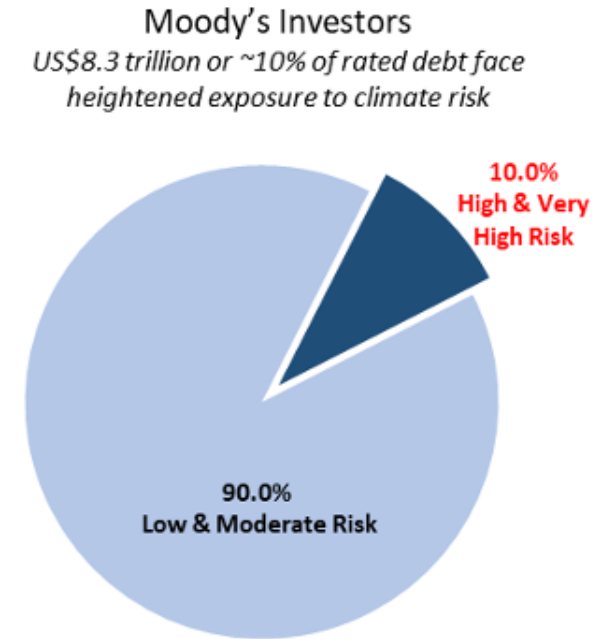
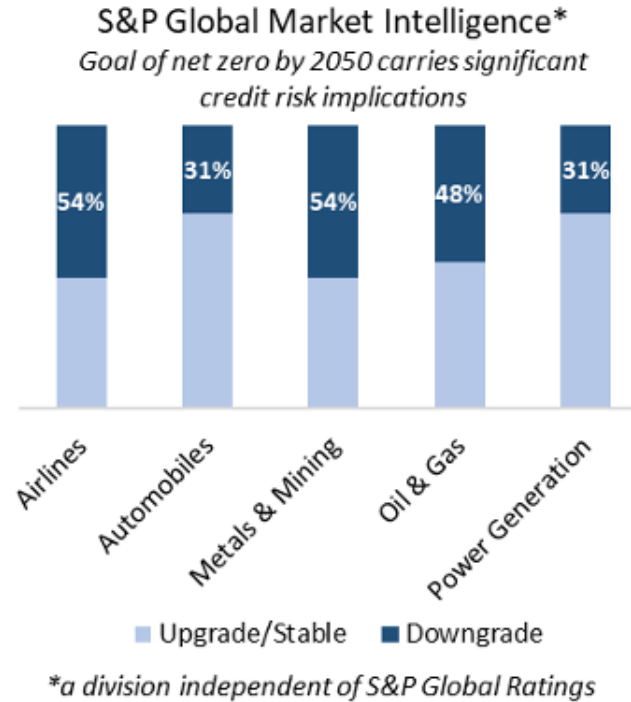
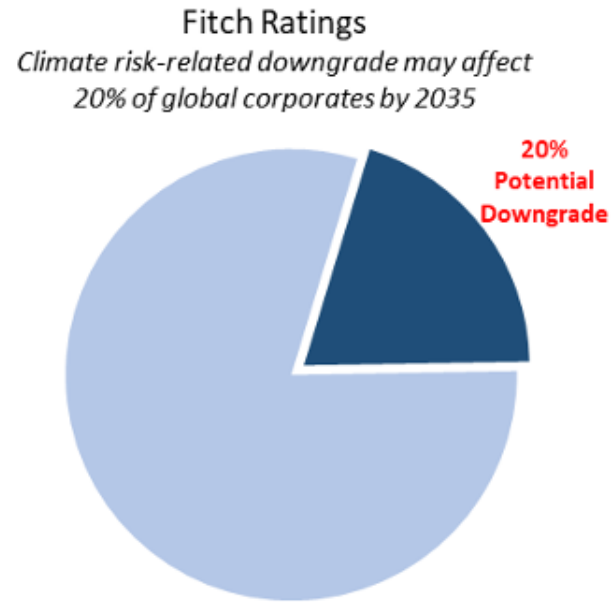


Source: ECB (2023)



# Intro

And credit raters align on potential credit downgrade risk...



Source: IEEA



# Agenda



Transition  
Finance:  
state of  
affairs

Transition  
Finance:  
DPAM action





# Why is the debate occurring?

## Conservative pragmatism

Debate is centered around:

1. Credibility
2. Investment style

Challenges to define **legal definition & context**, due to:

- Timeframes (speed)
- Scenarios
- Datapoints & frameworks

But also **investor credibility** (active ownership) should be defined:

- Timeline vs progress
- Individual vs collaborative
- Attribution

### Example:

O&G company with APS alignment by 2030, Net Zero by 2050.

### Key take-away:

Differentiate between climate alignment and transition alignment.





# What should be considered?

From reducing financed emissions to financing reduced emissions

**Basis** for 'investee transition' concept:

1. Key requirement: emissions reduction
2. Moving element: not aligned → aligning → aligned

**Datapoints** to take into account:

- GHG emissions (*proof*)
- EU Taxonomy CAPEX/revenue (*speed of transition!*)

Transition Plan assessments (CSRD, CSDDD), of investee & investor !

## Example:

### Iberdrola:

- CAPEX/rev ratio '23: 2.2 (Revenue '22 = 36.5%, Revenue '23 = 40.4%)
- GHG: 96, 83, 77 Kg CO<sub>2</sub>/MWh for 2021, 2022, 2023 (12.7 mn ton to 10.05 mn ton)

**Norsk Hydro** '23: CAPEX/rev ratio 1.2 (0.86 in 2022; Revenue '22 = 29%, Revenue '23 = 29%)

## Key take-away:

Focus on ambition, action and accountability!



# What is the legal status?

Awareness, with well-filled pipeline

## Transition investees

- EU Taxonomy
- EU ETS + CBAM
- EU Net-Zero Industry Act, IRA, etc.
- Green Deal with industry/activity specific regulations
- IFRS consultation climate risks
- Green Claims Directive!

## Transition finance investors

- ESMA Opinion (definition, disclosures, TP, transition bond)
- EU Tax Benchmarks
- SFDR RTS Level 2 revision
- IFRS consultation climate risks
- *Social transition! (link asset allocation)*

### Key take-away:

Europe continues its trajectory, don't forget 'the Brussels Effect' !



# Agenda



Transition  
Finance: state  
of affairs

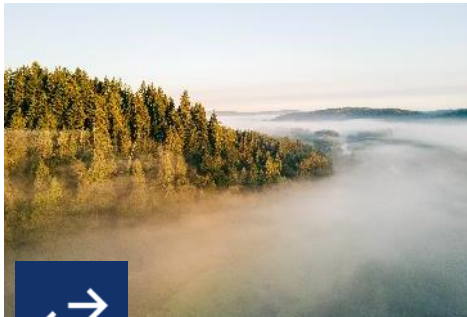
Transition  
Finance:  
DPAM action





# What is DPAM doing around transition finance?

An integrated story



## Technical expert group

- TCFD Steering Committee
- Legal



## Assessments

- TCFD assessment template (climate alignment AND transition alignment)
  - Quant + qual metrics, scenarios, timeframes...
  - Linked to active stewardship actions
- TCFD Dashboard



## Engagement & outreach

- Engagement monitoring tool
- Escalation framework (voting)
- Collaborative initiatives
- Consultations and stakeholder outreach



## Products

- Development of new products based on expertise
- Collaboration with academics (e.g., University of Liège, University of Ghent)



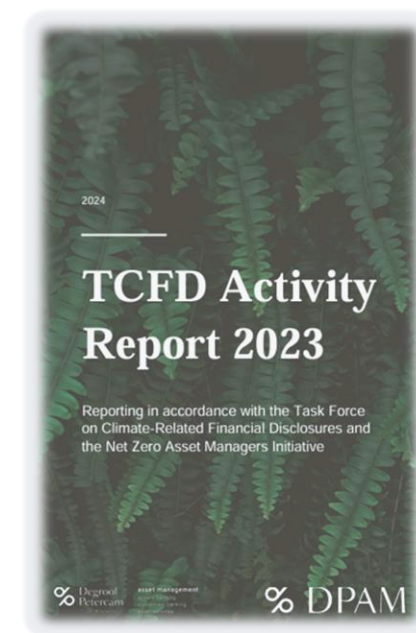
# Getting practical: example I

TCFD Steering Committee

## DPAM net-zero transition plan implementation



Source: GFANZ; DPAM





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